Nova Scotia Department of Finance

Accountability Report
2001/02

NOVA SCOTIA
Department of Finance

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Department of Finance

Accountability Report for the Fiscal Year 2001/02

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Accountability Statement

The Accountability Report of the Department of Finance for the year ended March 31, 2002, is prepared pursuant to the *Financial Measures Act* and government policy and guidelines. These authorities require the reporting of outcomes against the Department of Finance business plan for the fiscal year 2001-02. The reporting of Department of Finance outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this accountability report is the responsibility of Department of Finance management. The report represents, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance business plan for the year.

Honourable Neil J. LeBlanc
Minister of Finance

William D. Hogg
Deputy Minister

Message from the Minister

The Department of Finance is committed to open and transparent accounting of the province's books. We are responsible to the taxpayers of Nova Scotia, and as such, I am pleased to present this Accountability Report, based on the goals set forth in the 2001-02 business plan.

All aspects of the department's core functions are aimed at achieving fiscal stability. We are advancing through our four-year fiscal plan with a reduced deficit in 2001-02 and continuing toward our goal of a balanced budget in 2002-03.

We will meet our ongoing commitment to be accountable with timely reports on the status of the province's fiscal situation throughout the year.

Honourable Neil LeBlanc
Minister

Mission Statement

To establish a fiscal climate conducive for economic growth and to provide central agency support and policy direction for effective management of the province's finances and pensions administration.

Introduction

The Accountability Report is based on the goals, priorities and outcomes set out in the Department of Finance Business Plan 2001-02 and therefore, both documents should be read together. The purpose of the report is to provide an account of progress made on our goals, with a focus on high level strategic outcomes. Historical and comparative information is included where necessary, to enhance the readers' ability to understand the accountability information presented.

Department Progress and Accomplishments

Goals

- To enhance financial accountability in the management and control of the province's finances.
- To enhance Nova Scotia's long-term fiscal position, provide for fair and efficient taxation and promote economic growth in a strategic way that balances the social responsibilities of government, debt reduction, and a lowering of the tax burden.
- To provide a core set of high quality corporate services and infrastructure, that supports the efficient and effective management of the province's public resources, including: government accounting, payroll, pensions, budgeting, treasury, statistics, and internal audit.
- To achieve effective money management that maximizes return on investments and minimizes debt servicing costs, within acceptable risk tolerances.
- To foster an environment that values its clients and its employees.

The department's goals directly support the government's priorities as reflected in the Throne Speech and government's stated commitments. Many activities within each of the core business functions of the department reinforce these linkages. Economic development is enhanced with the overall fiscal health of the province and through effective taxation policies. The development of accountability mechanisms of legislation and regulations directly supports the government's directions. As an integral part of the department's culture, Finance is a dynamic organization that reviews its services on an ongoing basis and responds to client needs and feedback within its fiscal capacity. All aspects of the department's core functions are aimed at achieving fiscal stability and building a reasonable and responsive government.

Priorities for 2001/02

Financial Accountability

Priority

Continue enhancement of accountability and governance structures as they relate to public policy and administration of financial resources through the continued improvement of the province's financial management policies and procedures.

Accomplishments

- Produced the department's first Accountability Report, reporting on fiscal year 2000-01 in compliance with Treasury and Policy Board Guidelines.
- Implemented SAP in all seven regional school boards for April 1, 2002. Each school board now possesses a world class financial system which uses the same Financial Chart of Accounts across all seven boards.
- Implemented a strategy to update school board accounting policies in compliance with the Generally Accepted Accounting Principles (GAAP). A draft school board Accounting Manual was completed by March 31, 2002.
- Determined the degree of consistency with Public Sector Accounting Board (PSAB) Guidelines.
    - Nova Scotia follows a consistent standard of reporting its financial results. Canadian Generally Accepted Accounting Principles for government are set by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board.
    - Nova Scotia is ahead of most provinces in implementing PSAB financial reporting standards. A targeted plan was implemented to make several significant changes in each of the 1998-99, 1999-2000 and 2000-01 fiscal years made it a manageable process for these major conversions.

Priority

Continue to improve overall fiscal management by producing more relevant and timely financial reports.

Accomplishments

- Tabled the province's Public Accounts for fiscal year ending March 31, 2001 in advance of the December 31st legislated requirement and in compliance with Generally Accepted Accounting Principles.
- Produced quarterly reports, in fiscal year 2001-02, in the time frame required to allow government to fulfill its legislative mandate.

Fiscal Planning and Policy Development

Priority

Provide comprehensive research, analysis and advice on key federal-provincial issues and effectively represent Nova Scotia's interests in negotiations with other governments in such areas as the major federal transfer payments comprised of Equalization and the Canada Health and Social Transfer (CHST), tax collection agreements and the statistical databases which support them.

Accomplishments

- Represented the province's fiscal interest at the federal – provincial table as an integral part of the province's fiscal situation through: the Fiscal Arrangements Committee, the Federal-Provincial-Territorial Taxation Committee and the HST Tax Committee, as well as their various sub-committees (including Transfers Technical Sub Committee and the Revenue Allocation Sub-Committee.
- Provided ongoing research and analysis required for the 2004 renewal of the Equalization Program.
- Continued with the ongoing review of Statistics Canada changes and their impacts on Equalization and CHST. During the renewal process, technical impacts are assessed and material prepared on possible changes or challenges to material entering the various formula.
- As a result of presentations and papers prepared by the Statistics Division on the counting of university students in the Census, Statistics Canada has made changes to its study of persons missed in the Census to get more information on persons that are mobile such as university students and itinerant workers.

Priority

Provide for more comprehensive and accurate fiscal planning by government by building upon the econometric modeling enhancements undertaken last year and the development of a new modeling framework to capture major changes to the province's income tax system.

Accomplishments

- Developed new structural equations to run the Department of Finance's Nova Scotia Econometric Forecasting model using revised historical time series data from Statistics Canada.
- Added to the Nova Scotia Econometric Forecasting model a function to estimate Gross Domestic Product (GDP) by Industry.
- Developed a new Economic Impact model for the Nova Scotia economy (the Input/Output Model) using the latest data tables from Statistics Canada.

Priority

Initiate an ongoing process for assessment of the tax initiatives provided within the province and embark upon a full assessment of the current system of taxation with an evaluation of options to achieve a more competitive and responsive tax environment.

Accomplishments

- Initiated an internal process for reviewing tax credit and incentives with the Tax Credit Review as an ongoing process. A number of changes to tax credits were made over the course of the year to improve administration or achieve other tax policy objectives, including improvements to the R&D tax credit and an extension and improvements to the Film Industry Tax Credit.

Priority

Develop a strategy for the long-term reduction of debt in the province.

Accomplishments

- *A Balanced Approach to Surplus and Debt Management* paper was released April 18, 2002. The purpose of the paper was to inform Nova Scotians about the importance of a balanced budget and the need for continued surpluses. It also provided information about Nova Scotian's debt in absolute terms and in relative terms, using other provincial jurisdictions for comparison as the bench mark.
- Produced a four year fiscal plan forecasting a balanced budget starting in fiscal year 2002-03 and onward.

Priority

Monitor the strategy that will minimize the province's exposure to financial risk on such items as capital market exposures in foreign exchange and unforeseen events.

Accomplishments

- Foreign currency exposure at March 31, 2002 has been reduced to 28.9 per cent of the total debt portfolio, down from 30.8 per cent a year earlier. The Department of Finance expects foreign currency exposure to decline to 25.7 per cent by March 31, 2003. The Nova Scotia *Provincial Finance Act* requires that the Province reduce its foreign currency exposure to under 20 per cent and that all maturities with a term greater than one year are refinanced net in Canadian dollars. The Department of Finance continues to forecast that the province will achieve the 20 per cent foreign currency target by no later than September 2004.
- To manage financial risk due to unforeseen events, in fiscal 2001-02 the Province borrowed $2.74 billion and set aside $1 billion of those proceeds in the Public Debt Retirement Fund. The Budget anticipates these monies will be drawn down over the next number of years. This action will enable to province to safeguard against the possibility of severe financial market volatility which could temporarily hinder the government's financing ability.

Priority

Maintain or enhance funding positions of the Teachers' Pension Plan (TPP) and Public Service Superannuation Plan (PSSP).

Accomplishments

- Despite the overall decline in markets, both the PSSP and the TPP had positive returns for the year ending March 31, 2002, although the returns were below the actuarial assumed rate of return.
- PSSP: The funded ratio declined from 100.7 percent as at December 31, 2000 to 95.8 percent as at December 31, 2001. The decline was due to negative market conditions and a change in the retirement age assumption.
- TPP: The funded ratio declined from 94.7 percent as at December 31, 2000 to 87.5 percent as at December 31, 2001. The decline was due to negative market conditions and a change in the retirement age assumption.

Corporate Services

Priority

Develop a strategic approach and make recommendations for stronger co-ordination and development of the province's statistical resources based on the results of the all department Statistical Needs and Capacity Survey initiated in the last fiscal year.

Accomplishments

- Completed the Statistical Needs and Capacity Survey and carried out related focus group sessions and a series of interviews. A draft of the survey results and report has been completed. Recommendations and strategic approach are expected to be developed early in 2002-03.

Priority

Provide leadership and co-ordination to the implementation of standard accounting software and systems for the provincial public sector.

Accomplishments

- Nova Scotia School Boards - implemented the SAP Finance, Procurement, Inventory, Funds Management and Business Warehouse modules for all seven regional school boards. All school boards are sharing the same Provincial Chart of Accounts to facilitate cross-board reporting.

Priority

Provide guidance and support to departments and agencies on significant accounting and financial issues and for statistical services.

Accomplishments

- Assisted Department of Health by providing senior resource from Government Accounting for two weeks as interim Director of Finance at District Health Authorities 1, 2 and 3 during management and budget review.
- Significant resource committed from Government Accounting to advise Department of Education on new version of school board Accounting Manual and implementation of SAP at the board level.

Priority

Co-ordinate improvements in service delivery in payroll and benefits administration.

Accomplishments

- A more efficient process for reviewing the status of the Consolidated Health and Dental Plan has been implemented.

Priority

Implement a corporate internal audit structure for the provincial government.

Accomplishments

Corporate internal audit structure implemented on April 1, 2001. Managed the transition to this new structure by meeting with client departments to discuss change management and service delivery issues and impacts.

- Government departments and agencies were subject to comprehensive risk assessment. Developed 2002/03 audit plan based on this assessment which addressed the major internal audit priorities in government.
- New structure is in the process of developing a Control Self-Assessment (CSA) tool for client departments to use in assessing own operations to identify areas for improvement.

Priority

Improve the efficiency and effectiveness of the delivery of pension services to plan members and beneficiaries.

Accomplishments

- The implementation of new pension administration system is nearing completion and is the final testing phases.
- A new Internet access for pension information (Penweb) has been implemented and the roll out to members was begun – Penweb is internet based software which Department of Finance acquired to permit pension plan members to look up their personal information through the Internet.

Investments, Pensions and Debt Management

Priority

Develop and implement a public capital risk allocation methodology.

Accomplishment

- A comprehensive methodology for the allocation of risk capital relating to contingent liabilities in the form of guarantees has been developed and circulated to user departments for their consultation and feedback prior to implementation.

Priority

Continue the process of integrating treasury management systems and capital market information systems to enhance the overall control, monitoring, and performance of the Liability Management and Investment divisions.

Accomplishments

- "Bond Edge" system acquired to help monitor the internal bond portfolio – Bond Edge is a PC-based system for fixed income portfolio and security analytics designed by Capital Management Sciences utilizing fixed income data provided by RBC Capital Markets. The Bond Edge System includes a comprehensive database of securities and provides a broad range of analytical tools for evaluating individual securities or diversified portfolios.
- "Asset Optimizer" acquired to assist in making asset mix decisions for the funds under management – The Asset Optimizer software will assist with asset allocation decisions made in relation to the province's Teacher's and Superannuation pension funds. The software allows the user to examine the impact of adding new asset classes to current asset mixes.

Developing a Quality Organization

Priority

Contribute to the quality and professionalism of human resource management in the department.

Accomplishment

- Provided effective quality human resource advice and assistance to management in dealing with human resource management issues within the department.

Priority

Continue to develop a productive and skilled workforce in a healthy and safe work environment.

Accomplishments

- Assisted management in determining appropriate qualifications and recruitment strategies when filling vacant positions.

- Provided assistance to management and employees in securing appropriate training and development information for the purpose of employee development and skill maintenance.
- Supported the Public Service Commission's Master of Public Administration Management Program with one employee graduating in the Fall of 2001 and one employee anticipated graduating in the Fall of 2003.
- Supported the Public Service Commission's Executive Career Assignment Program (ECAP) by filling the Senior Policy Analyst position.

Priority

Acquire and develop technologies to improve productivity and output quality.

Accomplishments

- Performed regular upgrades to network and desktop software to ensure compatibility, stability, reliability, and desktop and network security.

Priority

Continue to improve staff training opportunities to provide the skills necessary to achieve the department's strategic goals.

Accomplishments

- Ensured that up-to-date information on training and development opportunities were made available to staff.
- Provided feedback on training initiatives and staff training needs to the Staff Training and Development Division of the Public Service Commission to assist them in ensuring that they are providing departments with the types and level of training required.

Budgeting Context

DEPARTMENT OF FINANCE
AUTHORITY TO ACTUAL VARIANCE REPORT FOR FISCAL YEAR 2001-2002
(Actuals as of June 27, 2002)

Core Business Function	2001-2002 Authority	2001-2002 Actuals	Actuals to Authority Variance over/(under)	Actuals Spent to Authority Percentage	Notes
Senior Management	1,074,000	1,004,209	(69,791)	93.5%	1
Controller	8,048,000	7,788,244	(259,756)	96.8%	2
Investments, Pensions & Treasury Services	919,000	875,818	-43,182	95.3%	
Fiscal & Economic Policy	1,645,000	1,571,296	(73,704)	95.5%	
Corporate Service Units	2,541,000	2,192,001	(348,999)	86.3%	3
	14,227,000	**13,431,568**	**(795,432)**	**94.4%**	
Prior Years' Recoveries	(1,360,000)	(1,727,222)	(367,222)	127.0%	4
Department of Finance	**12,867,000**	**11,704,346**	**(1,162,654)**	**91.0%**	

Notes Actuals to Authority Variance Explanation
1 Actuals low due to Vacant Policy Analyst position
2 Actuals low due to savings in general operations including printing, postage, travel
3 Actuals low due to travel and secondment recovery in Financial Services
4 Due to the nature of this recovery, it is difficult to plan with certainty the amount to be achieved. Actual Recoveries in 2001-2002 were higher than anticipated

Highlights from Human Resources

The Human Resources Division of the Corporate Services Unit (HR-CSU) has responsibility to deliver human resource programs to a number of diverse clients of which the Department of Finance is one. In conjunction with the Public Service Commission, a major challenge for the HR-CSU is the provision of essential support to its clients in recruiting, selecting, training, developing and rewarding employees to meet critical current and future human resource requirements.

Priority

In conjunction with the Public Service Commission, develop a common vision for human resource services, clearer roles and responsibilities, and agreed priorities for the development of professional human resource capability across government.

Accomplishments

- Established, in conjunction with the human resource community, six strategic priorities for the effective delivery of human resource management across government. Committees have been formed and work is continuing in the development of an effective approach to delivery on these strategies.

Priority

On-going delivery of the Bargaining Unit classification project which started in 2000 and delivery of the new MCP (management) classification and compensation review project

Accomplishments

- Completed and submitted to the Public Service Commission, job fact sheets for the Bargaining Unit classification project. All bench mark positions for the MCP classification and compensation review project have been completed. The next stage will include writing all other MCP job descriptions. Training is expected to commence in September, 2002.

Priority

Assist with organizational review and restructuring as required

Accomplishments

- Worked with Pension Services in developing a plan of action to review their current structure and operation in light of the launching of the new computer system. This plan of action will include conducting an internal work analysis from an efficiency and effectiveness perspective, an organizational review phase where resource needs will be reviewed, and an implementation phase.

Highlights from Information Technology

The Information Technology Division of the Corporate Services Unit (IT-CSU) undertook steps to better integrate its priority setting and service delivery with the business priorities of its cross-section of clients. In this context the IT-CSU priorities for the 2001-02 fiscal year for the Department of Finance were to:

Priority

Promote the effective use of technology to achieve the business priorities of the Department of Finance.

Accomplishments

- Developed a high level business model for the department – In April of 2001 the Finance IT-CSU group was merged into the Resources IT-CSU group. This allowed for a larger, stronger team that provided for economies of scale, staff benefits (career opportunities, cross training, etc), and a new service delivery model. The development of the high level business model for the Department of Finance was completed including a process model describing the preparation of the Consolidated Statements of the province.
- The SAP team is also reviewing opportunities provided by SAP functionality, in partnership with Service Nova Scotia and Municipal Relations and the Public Service Commission. Electronic pay advice/stubs were analyzed and plans to implement them were developed.

Priority

Promote the Department of Finance for possible transition to a Corporate Shared Services model of delivery of infrastructure (network, help desk and desktop support) services. This objective is to ensure technical readiness prior to the conclusion of the Corporate Shared Services Opportunities Project, currently underway.

Accomplishments

- The Corporate Shared Services model was closely followed for developments and alignment with the IT-CSU team. Several IT staff participated in the corporate project and working teams. Final approval of the report and its recommendations are scheduled for the Business and Technology Advisory Committee approval. The merger of the CSU's have allowed the teams to consolidate standards, processes and teams facilitating their readiness for integration into any future strategic initiatives.

Highlights from Financial Services

The role of the Financial Services Division of the Corporate Services Unit (Finance-CSU) is to provide day-to-day managing of accounting transactions and to provide financial planning advice and analysis to support business decisions within our client departments. In this context, the Finance-CSU priorities for the 2001-02 fiscal year for the Department of Finance were to:

Priority

Meet the department's needs with respect to financial analysis in business case development, user fee recoveries, program costing analysis, cost-benefit analysis, business planning, estimate and forecast planning and other projects.

Accomplishments

- Provided detailed financial information to the senior management team and the Deputy Minister. Included a detailed monthly forecasting process involving departmental staff and included a senior management summary report.
- Provided accurate recording of program costs. In May 2001, the Senior Financial Executive Forum prepared a discussion paper on Costing Government Services which has led to the establishment of a government wide "Program Inventory and Costing Initiative"committee.

Priority

Continue to streamline/ensure efficiency of financial procedures and processes within the Department of Finance in compliance with Public Sector Accounting Board (PSAB) government accounting guidelines.

Accomplishments

- Provided accurate financial information on a timely basis to Government Accounting in preparation of the government's consolidated financial statements.
- Implemented the commitment of educational advances within SAP to ensure accurate recording of advances to employees.

Priority

Support government's agenda with respect to implementation of major revisions to financial management accounting policies, including increased financial accountability.

Accomplishments

- Implemented a new tax ruling related to monthly travel allowances issued by the Canada Customs and Revenue Agency.

Priority

Continue utilization of the Asset Management Module of the Corporate Financial Management System in accordance with the corporate Tangible Capital Assets Policy. Ensure appropriate and

accurate recording of capital assets resulting in information which will increase efficiency in the management of capital assets.

Accomplishments

- Ensured that all relevant projects were submitted through the Tangible Capital Assets prioritization process. This included the purchase of an Enterprise Server and the SAP Enterprise Resource Planning System.
- Monitored amortization expenditures throughout the forecasting process and completed an analysis on all tangible capital asset purchases and amortization expenses for year end audit purposes.

Outcome Measures

The following section of this report provides 'mini-reports' on each of the department's measures highlighted in the 2001-02 Business Plan – *Attachment A - Finance Outcome Measures 2001-02.* Each measure is introduced by its core business area, followed by its intended outcome. The bulk of the report addresses three questions:

- *What does the measure tell us?*
  Defines the measure and indicates how the measure is linked to the intended outcome.

- *Where are we now?*
  Reports the baseline data and year and refers to comparison and or trend data where applicable

- *Where do be want to go?*
  Identifies relevant activities or strategies in place to realize the intended outcome.

Core Business: Financial Accountability
Measure: Outcomes Reporting
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. An outcome used to gauge whether the department has achieved its core business is effective management of the province's financial operating resources. Outcome reporting through the production of an annual accountability report is a measure used to gauge performance.

What does the measure tell us?
Annual accountability reports summarize the activities, accomplishments and outcomes of the previous fiscal year, and specifically reflect on annual business plans. They describe major results, achievements and progress in meeting the department's intended goals, priorities and outcomes set in the departmental business plan.

Where are we now?
In fiscal year 2001-02 the Department of Finance produced its first annual accountability report reporting on fiscal year 2000-01. The Department of Finance also produced its 2002-03 Business Plan with outcome measures in compliance with guidelines developed by Treasury and Policy Board.

Where do we want to go?
The department will continue to release an annual accountability report, reporting on its activities and performance, including reporting the outcome, measure, baseline year data, comparison data, targets, and strategies in place to assist in achieving intended outcomes.

Core Business: Financial Accountability
Measure: Outcomes Reporting
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. An outcome used to gauge whether the department has reached its goal is the effective management of the province's financial operating resources. Outcome reporting using performance indicators from the Canadian Institute of Chartered Accountants (CICA) is a measure used.

What does the measure tell us?
CICA indicators are used because of their relative comparability to other provinces. The indicators reflect financial trends that have occurred in the province over a number of years. The indicators will be of most value to the users of financial statements. The intent of the indicators is to allow Nova Scotians' to measure how well the province "measures up" to other provinces and to gauge the province's performance year over year.

Where are we now?
A committee has been formed to conduct a jurisdictional review of what other provinces are doing and to determine which indicators would be of the greatest benefit for Nova Scotia.

Where do we want to go?
In the short term the department would like to identify and establish three indicators to be used as measurement tools for the province – over time the number of indicators reported on would be expanded with the goal of improving the province's position.

Core Business: Financial Accountability
Measure: Systems and mechanisms in place to monitor third party spending
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. A measure used to meet this outcome is systems and mechanisms to monitor third party spending – such as the implementation of Enterprise Resource Management Software in the municipal, academic, school board and hospital sector.

What does this measure tell us?
This software offers a suite of programs that can unite all business processes of the government as a whole in a comprehensive system. Each application can stand alone because of the modular structure of the software. The applications address every area of operation including accounting, material management, and human resources. These applications not only span the entire range of the business done by government, they will remain current with government's changing needs.

This measure tells us the number of provincial reporting entities with effective financial management systems and the number of provincial departments which have online and realtime access to their respective provincial reporting entities' financial information.

Where are we now?
The government provided funding, in addition to in-kind support for implementation of the financial system in all seven regional school boards. By March 31, 2002, each school board possessed their own world class financial system, using the same Financial Chart of Accounts across all seven boards. With this implementation, the Department of Education now has online and realtime access to each board's information.

Where do we want to go?
Further expansion of the education sector, with implementation of the new financial system in all schools within the province by fiscal year end 2003-2004. Future plans include implementation of the system in the district health authorities.

Core Business: Financial Accountability
Measure: Comprehensive Audit Plan
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. A measure used to meet this outcome is the provision of a comprehensive audit plan.

What does the measure tell us?
A comprehensive audit plan is a schedule which outlines the projects to be addressed by the Internal Audit Division over the course of the fiscal year. These projects are derived mostly from requests submitted by our client departments, although the audit division may also select certain areas across government for audits. The plan also allows some flexibility for sudden or immediate project requests that are submitted by client departments. The plan is based upon a ranking of each of these projects using risk assessment criteria. Each project is assessed against this criteria, and the higher the project's score, the higher its ranking in the schedule, and the greater its priority.

Where are we now?
The audit division assesses the effectiveness of operations by:

- consistently reviewing the audit plan to ensure it is current and that all salient areas of risk in government have been addressed and incorporated into the schedule.
- monitoring the progress of individual projects on a frequent basis to ensure they are within time budgets. This allows the division to identify barriers to completing the projects and to plan accordingly to address these barriers.

In fiscal year 2001-02 the division completed 79 percent or 29 of 34 requested audits.

Where do we want to go?
The division assesses its performance on at least a quarterly basis, and anticipate either meeting or exceeding budget targets, i.e. to ensure projects can be completed in the time allotted, or less. The division is aiming for at least 75 percent completion of the audit plan based on a comparison of actual hours to budget hours. (Note: a 75 percent target allows for the possibility that other higher-priority projects may arise after the audit plan is formally approved by the Audit Committee). To meet this goal, the division will continue to monitor the progress of projects against the audit plan, so as to identify areas in which project completion may be affected, and to plan to address these areas. More significantly, the division will rely on feedback provided in surveys of our client departments so as to improve the quality of our services.

Core Business: Financial Accountability
Measure: Degree of consistency
Outcome: Transparent and open financial reporting

A core business area of the department is financial accountability. A desired outcome is transparent and open financial reporting. A measure used to gauge this outcome is the degree of consistency in reporting, using generally accepted accounting principles for government, as set by the Canadian Institute of Chartered Accountant Public Sector Accounting Board (PSAB).

What does this measure tell us?
This measure tells us that Nova Scotia follows a consistent standard of reporting its financial results based on the generally accepted accounting principles for governments as set by (PSAB).

Where are we now?
Nova Scotia is ahead of most provinces in implementing PSAB financial reporting standards. A targeted plan to implement several changes in each of the 1998-99, 1999-2000 and 2000-01 fiscal years made it a manageable process for these major conversions.

Following PSAB rules for reporting, the consolidation of other related entities into the province's financial results was done for the first time in 1998-99. This was a turning point on the road to transparency and disclosure. Related entities, such as health and school boards, are now included in the tally of the fiscal results and debt – two key measurements of performance. No longer can debt and deficits be located in another related entity without being reported as belonging to the province. Adoption of consolidated reporting gives the public "one set of books" with an "all in" approach.

The accounting for tangible capital assets and pensions was converted to be compliant with PSAB recommendations for 1999-2000. The new tangible capital asset policy has promoted better planning for capital expenditures and better resource management. It reflects that such assets have a useful life of more than one year and thus provide benefits to many future years. In addition, the pension accounting policy now measures benefits as they are earned, allowing for more complete recognition and measurement of retirement obligations.

Where do we want to go?
Full compliance with PSAB recommendations is our minimum standard. Attention to new pronouncements is required to ensure new recommendations are built into the accountability plan. Being compliant in respect of policies is important so more focus can be directed to refining other accountability methods such as performance measurement.

Core Business: Financial Accountability
Measure: Date annual report (financial statements) issued
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. A measure used to achieve this outcome is annual reporting to the public through the production of timely financial statements.

What does this measure tell us?
Financial statements are an audited confirmation of the financial performance and position of the province for the fiscal year. It is important for users – especially external users like debt rating agencies, to receive this information on a timely basis. These agencies use the audited information for assessment and decision making in regard to their relationship with the province. Timely release of the information also builds credibility in the process.

Where are we now?
The *Provincial Finance Act* requires that the financial statements are tabled by December 31st following the March 31st year end. For example:

- the financial statements of 1998-1999 and 1999-2000 were tabled in December of 1999 and 2000 respectively. There were major accounting policy changes to implemented in those years.
- the financial statements for 2000-2001 were tabled in November, 2001, six weeks earlier than the prior year.

Where do we want to go?
Continue to meet the legislative deadline of December 31st as a minimum standard with a goal to release the audited financial statements as early as possible without compromising their preparation or audit processes. Timing will vary depending on the number of complex issues and accounting policy changes needing to be addressed in any given year.

Core Business: Financial Accountability
Measure: Dates updated forecasts are issued
Outcome: Transparent and open financial reporting

A core business area of the department is financial accountability. A desired outcome is transparent and open financial reporting. A measure used to gauge this outcome is the dates that updated forecasts are issued.

What the measure tell us?
Regular scheduled financial reporting informs Nova Scotians about the state of the province's finances. Quarterly reports allow the public to gauge how the government is managing its resources and how fiscally responsible government is.

Where are we now?
There is a legislated requirement that government publicly report on its financial position. These reports are to be produced within three months of the end of each quarter. In 2001-02 the Department of Finance produced quarterly reports in the time frame required to allow government to fulfil its legislative mandate.

Where do we want to go?
Continue to meet the legislative require to release quarterly reports within the three month time frame.

Core Business:	Fiscal Planning and Policy Development
Measure:	Net debt service costs as a percentage of revenues. Net direct debt as a percentage of GDP
Outcome:	Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of orderly, prudent and sustainable multi-year fiscal plans. A measure used to gauge how effective the department is in achieving this outcome is the debt burden of the province.

What does the measure tell us?

Net debt service costs as a percentage of revenue and net direct debt as a percentage of GDP are indicators of the fiscal sustainability and flexibility of the province. The higher the ratios, the greater the debt burden on the residents of Nova Scotia.

Where are we now?

In fiscal 2001-02 it is forecasted that Nova Scotia's net debt service costs as a percentage of revenues will be 16.7% and the net debt to GDP ratio will be 46.2 percent.

Where do we want to go?

The long term objective is to have steady reductions in both of these measures to the point of the national average.

Core Business: Fiscal Planning and Policy Development
Measure: Surplus Management/Debt Control Plan
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of orderly, prudent and sustainable multi-year fiscal plans. A measure used to achieve this outcome is the production of *A Balanced Approach to Surplus and Debt Management* paper.

What does the measure tell us?
The purpose of the paper is to inform Nova Scotians about the importance of a balanced budget and the need for continued surpluses in order to reduce the debt. It is also intended to inform Nova Scotian's about the current debt of the province both in absolute terms and in relative terms, using other provincial jurisdictions for comparison.

Where are we now?
The paper was released April 18, 2002.[1]

Where do we want to go?
To meet or exceed the net direct debt/GDP ratios identified in the Surplus Management/Debt Control plan, and to look at options available to the government to reduce debt and examine the feasibility of each option while meeting the priorities of Nova Scotians.

[1] A Balanced Approach to Surplus and Debt Management, 2002-03, www.gov.ns.ca/finance

Core Business: Fiscal Planning and Policy Development
Measure: Credit ratings of major rating agencies
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of an orderly, prudent and sustainable multi-year fiscal plan. Using credit ratings by major rating agencies as a measure determines whether or not the department has improved its financial position and access to funding.

What does the measure tell us?
A credit rating is an evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of credit quality of bonds or other financial instruments. A credit rating affects the borrower's debt servicing costs and the investor's rate of return since an investor will demand a higher interest rate on a more risky, lower-rated security.

Where are we now?
Baseline for fiscal 2001-02 is the Dominion Bond Rating Service (DBRS) rating of the Province of Nova Scotia at BBB (high) with a stable outlook.

Canadian Ratings

Province	**Dominion Bond Rating Service**
Newfoundland	BBB
Prince Edward Island	A(low)
Nova Scotia	BBB+
New Brunswick	A
Quebec	A
Ontario	AA(low)
Manitoba	A
Saskatchewan	A
Alberta	AA(high)
British Columbia	AA(low)

Source: Nova Scotia Department of Finance 2001-2002

Where do we want to go?

A DBRS rating of BBB (high) with a positive outlook or a rating of A Low by 2004-05.

Core Business: Fiscal Planning and Policy Development
Measure: Surplus/Deficit
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business are of the department is fiscal planning and policy development. A desired outcome is the production of an orderly, prudent and sustainable multi-year fiscal year plan. A measure used by the department to achieve this outcome is the production of a multi-year plan that is balanced or contains a surplus.

What does the measure tell us?

A balanced budget means that the government has its spending under control. In order to achieve the objective of a balanced budget, the Department of Finance works closely with the Treasury and Policy Board to ensure that expenditures are closely monitored. The department also continues to enhance its fiscal models to improve in-house revenue forecasting.

Where are we now?

The four year fiscal plan forecasts a deficit in 2001-02, and estimates a small surplus in 2002-03 and balanced budgets for the remaining years.

Where do we want to go?

To achieve sustained and increasing surpluses.

Core Business: Fiscal Planning and Policy Development
Measure: Overall corporate income and capital tax rates
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. A desired outcome is a positive climate for investment that stimulates economic growth. Overall corporate income tax and capital tax burden is a measure used to achieve the desired outcome.

What does it tell us?
Corporate income and capital tax rates measure the overall business tax rate applied to Nova Scotia business[2]. It is the most visible form of taxation for businesses looking to invest in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital – two major elements of business investment. By monitoring these rates, we can compare them to rates in other jurisdictions to ensure that the province remains competitive.

Where are we now?
The table below provides an overview of where Nova Scotia is today in comparison with other Atlantic Provinces. These rates do not take into account tax credit programs that exist in Nova Scotia or the other provinces:

Atlantic Canada Business Tax Rates, 2002:

	Nova Scotia	New Brunswick	PEI	Newfoundland and Labrador
General income tax	16%	15.25%[a]	16%	16%
Small Business income tax	5%	4%	7.5%	5%
Large Corporations Tax (Capital Tax)	0.25%	0.3%	Nil	Nil

[a] Average for 2002. January 1, 2002 the rate was 16%, dropping to 14.5% on July 1, 2002.
Source: Nova Scotia Department of Finance

Where do we want to go?
We want to ensure our business tax rates remain competitive with other provinces while maintaining fiscal responsibility. The introduction of a balanced budget in 2002-03 better allows the province to remain competitive.

[2]Note the current measure looks only at the general rates and does not include special tax incentives and targeted measures.

Core Business: Fiscal Planning and Policy Development
Measure: Marginal Effective Personal Tax Rates
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. A desired outcome is a positive climate for investment that stimulates economic climate. A measured used to achieve this outcome is marginal effective personal tax rates.

What does the measure tell us?
Marginal effective personal tax rates looks at the marginal effective tax rates in four personal income ranges, commonly referred to as the low, middle and high brackets and either a high income surtax or a fourth bracket. It is a good measure of the amount of tax expected to be paid on the next dollar earned in an income bracket. This measure is not designed to measure the tax burden. The measure tells us how much tax an individual can expect to pay on the next dollar of taxable income earned and allows us to compare this to other provinces.

Where are we now?
The following table shows the marginal effective rates in Atlantic Canada. It should be noted that as a result of the move to Tax on Net Income, provinces are allowed to individually move income brackets. This has resulted in differing brackets across the country, hindering effective comparability. We have chosen to use the terms Low, Middle, High and High Plus to distinguish the brackets. Generally, the low bracket is up to about $30,000, the middle bracket up to about $60,000 and the High over $60,000. High Plus refers to where either a high income surtax starts (based on the amount of basic tax payable, in Nova Scotia's case $10,000 of tax) or an additional bracket starts (in New Brunswick's case $100,000 of income).[3]

Personal income tax rates – 2002

	Nova Scotia	New Brunswick	PEI	Nfld and Labrador
Low	9.77%	9.68%	9.8%	10.57%
Middle	14.95%	14.82%	18.18%	16.16%
High	16.67%	16.52%	18.37%	18.02%
High plus (includes surtaxes)	18.34%	17.84%	18.37%	18.02%

[3] A surtax is calculated as a percent of basic tax in excess of a certain threshold.

Source: Nova Scotia Department of Finance

Where do we want to go?

The government commitment is to remain competitive with other provinces, particularly those in Atlantic Canada. The implementation of Tax on Net Income has given the province greater flexibility to achieve this goal.

Core Business: Fiscal Planning and Policy Development
Measure: Indirect tax per personal income
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. An expected outcome is to create a positive climate for investment that stimulates economic growth. A measure used to gauge this outcome is indirect tax per personal income.

What does the measure tells us?
Indirect tax per personal income measures the amount of an individual's personal income paid in indirect taxes. Indirect taxes include sales taxes, fuel taxes, tobacco taxes and other indirect taxes. It is based on Statistics Canada data on a provincial basis. It is determined by dividing total indirect taxes paid in the province by total personal income and it tells us how much of our personal income is paid out in indirect taxes and allows for a comparison to other provinces. It is an aggregate measure, which means it is not directly transferable to one's own personal circumstances since each individual's spending patterns are different, however, it is a good measure of the overall burden.

Where are we now?
The latest available data for this measure refers to 1999. In 1999, Nova Scotia ranked 3 in the country (1=best) on this measure with a rate of 15.4%. The trend in this measure has been downward since 1994 when it was 15.6%.

Where do we want to go?
Nova Scotia's position on this measure is competitive with other provinces and the goal is to remain so.

Core Business: Fiscal Planning and Policy Development
Measure: Federal Provincial Issues and Initiatives
Outcome: Nova Scotia's interests effectively represented in federal fiscal policies and at federal-provincial discussions related to fiscal arrangements

A core business area of the department is fiscal planning and policy development. A desired outcome is to have Nova Scotia's interests effectively represented in federal fiscal policies and at federal-provincial discussions related to fiscal arrangements. A measure used to achieve this outcome is our involvement in federal-provincial issues and initiatives.

What does the measure tell us?

Representing Nova Scotia's fiscal interests at the federal provincial table is not easily measured, yet it is an integral part of the province's fiscal situation. Through the Fiscal Arrangements Committee (FAC), the Federal Provincial Territorial Taxation Committee and the HST Tax Policy Committee, as well as their various sub-committees (including Transfers Technical Sub Committee (TSC) and the Revenue Allocation Sub-Committee), Nova Scotia has direct access to comment on and review the workings of various federal-provincial agreements. Federal fiscal transfers and tax collection agreements account for over 75% of the provinces total revenues. Federal transfers and tax collection agreements under the responsibility of the Department of Finance include:

- the Tax Collection Agreement or TCA ($1.54 billion) - includes personal and corporate income tax and large corporations tax (capital tax)
- the Comprehensive Integrated Tax Collection Agreement or CITCA ($888 million) - covers the federal agreement to collect and distribute the harmonized sales tax
- Equalization ($1.32 billion) - constitutional payments to provinces intended to ensure provinces can provide reasonably comparable levels of public service at reasonably comparable levels of taxation
- Canada Health and Social Transfer or CHST - block funding provided by the federal government intended to provide some funding for health and social needs

Where are we now? Where do we want to go?

Federal transfers and tax collection agreements under responsibility of the NS Department of Finance

Program	***Where are we now?***	***Where do we want to go?***
TCA	- F/P negotiations underway to renew agreement based on TONI - a number of multi-lateral and bi-lateral discussions have been held	- negotiations expected to be completed this fiscal year - ongoing monitoring and revision will be required

CITCA	- agreement has been in place since 1997 - a review process is currently underway with all participating provinces and the federal government to determine if changes are needed	- some changes already identified and require amendments - review of revenue allocation agreement requires constant monitoring to ensure Nova Scotia receives its appropriate allocation
Equalization	- renewed every 5 years, next renewal is 2004 - work already underway with federal government - the formula is a complicated one with 33 tax bases and over 1000 variables which requires a great deal of research and analysis - a work plan has been developed	- agreement to be reached before April 2004 - a number of technical meetings to be held over next 18 months
CHST	- essentially a federal government program, however, strong provincial representation is needed to ensure Nova Scotia's interests are protected	- continue to represent Nova Scotia's interest at F/P meetings.

Source: Nova Scotia Department of Finance

In addition, Nova Scotia actively participates in provincial territorial meetings and will chair these meetings in 2002-03. Participation in academic forums allows the province to challenge positions openly within full view of other provincial and federal officials.

Core Business: Corporate Services
Measure: Number of formal reviews undertaken
Outcome: Quality business services at the best possible price to departments and agencies

A core business area of the department is corporate services. A desired outcome is quality business services at the best possible price to departments and agencies. A measure used to achieve the outcome is the completion of formal reviews.

What does this measure tell us?
Formal reviews of corporate services provides analysis and advice on emerging and ongoing issues required to enhance the province's control over its efficient and effective management of public resources.

Where are we now?
The following two services were reviewed:

- Internal Audit
  Resulted in the internal audit function for all of government centralized within the Department of Finance effective April 1, 2001.
- Payroll
  Resulted in confirmation that continuation of delivery of the service, with slightly fewer staff, by Department of Finance rather than outsourced was the most cost-effective method of delivery.

Where do we want to go?
To conduct one formal review each fiscal year.

Core Business:	Investments, Pensions and Debt Management
Measure:	Net debt service cost expressed as a percentage of net debt outstanding
Outcome:	Effective and prudent management of the province's financial assets and liabilities

A core business area of the department is investments, pensions and debt management. A desired outcome is the effective and prudent management of the province's financial assets and liabilities. A measure using net debt service cost expressed as a percentage of net debt outstanding, determines whether or not we have accomplished the outcome.

What does the measure tell us?

The measure net debt servicing costs as a percentage of net debt outstanding gives an indication of the average interest cost on the province's net debt. However, as debt servicing costs includes a number of accounting adjustments, including various items for pension accounting, the measure is not precise.

Where are we now?

In 2001-02, the net debt servicing cost as a percentage of net debt stood at 7.8 percent, and is estimated to be 7.6 percent in the 2002-03 budget.

Where do we want to go?

The province will continue to manage the debt and investment portfolios to achieve positive results within an appropriate level of financial risk.

Core Business: Investments, Pensions and Debt Management
Measure: Percentage of foreign currency exposure in debt portfolio
Outcome: Effective and prudent management of the province's financial assets and liabilities

A core business area of the department is investments, pensions and debt management. A desired outcome is the effective and prudent management of the province's financial assets and liabilities. Using the percentage of foreign currency exposure in debt portfolio as a measure determines whether or not we have accomplished the outcome.

What does the measure tell us?
The measure of percentage of foreign currency exposure in the debt portfolio measure tells us the risk to net debt servicing costs arising from changes in the value of the Canadian dollar relative to the US dollar, and Japanese Yen. The province has unhedged exposure on principal and interest payments on USD and Japanese Yen debt.

Where are we now?
The province's foreign currency exposure has been reduced to 28.9 percent as of March 31, 2002. To put this figure in context, foreign currency exposure was 72.2 percent on March 31, 1995.

Where do we want to go?
The *Provincial Finance Act* requires that the province reduce its foreign currency exposure to under 20 percent and that all maturities with a term greater than one year are refinanced in Canadian dollars. The Department of Finance continues to forecast that the province will achieve the 20 percent foreign exchange exposure target by no later than September 2004.

Core Business: Investments, Pensions and Debt Management
Measure: Funded status of Teachers Pension Plan and Superannuation Plan
Outcome: Secure provincial public pension plans

A core business area of the department is investments, pensions and debt management. A desired outcome is secure provincial public pension plans. A measure used to achieve this outcome is the funded status of the plans – the standard measure used in the pension industry.

What does the measure tell us?
This measure tells us what percentage of the pension plan's liabilities are backed by real assets if the plan was to be wound up as at the actuarial date. The closer the funded status is to 100 %, the greater the level of confidence that pension plan members and beneficiaries have that their benefits are secure.

Where are we now?
The following table shows the position for each plan.

Positions for the PSS and TPP plans

Year ended	PSS	TPP
31 Mar 2002	95.6%	
31 Dec 2001		87.5%

Source: Nova Scotia Department of Finance

Where do we want to go?
The intention is that both plans will be adequately funded. To achieve this, the strategy is to maximize the rate of return within an appropriate level of risk and to ensure that any benefit enhancements are fully funded. The rate of return is subject to external capital market conditions. Consequently the funded ratios will not exhibit a constant trend but may vary from a surplus position to an unfunded position or vice versa.

Core Business: Developing a Quality Organization
Measure: Training
Outcome: Well-qualified and productive employees

A core business area of the department is development a quality organization. A desired outcome is the development of well qualified and productive employees. Training is one measure used to determine success.

What does this measure tell us?
Training which results in enhancing the qualifications and value of employees within the Department of Finance, is strongly supported by senior management. The result is having a workforce who are ready to meet the challenges offered within the organization.

Where are we now?
Presently training is determined on an "as needed" basis and in some cases, it is clearly tied to "development" of employees. Identifying succession management as key to our success, we are presently making more effort to have resources directed to the "development" of employees in order to support the concept of the Department of Finance as a 'learning organization'.

Where do we want to go?
We want the Department of Finance to be seen as a 'learning organization' with a goal of being an effective and efficient corporate leader across government in the field of financial management. This will require ensuring that our employees have the knowledge and experience to take on the challenges presented. In fiscal year 2001-02 we supported the Public Service Commission's Master of Public Administration Management Program with one employee graduating in the Fall of 2001 and one employee anticipated graduating in the Fall of 2003. In addition, the Department supported the Public Service Commission's Executive Career Assignment Program (ECAP) by filling the Senior Policy Analyst position with a candidate.

Core Business: Developing a Quality Organization
Measure: Personal career planning
Outcome: Well-qualified and productive employees

A core business area of the department is development a quality organization. A desired outcome is the development of well qualified and productive employees. Personal career planning is one measure used to determine success.

What does this measure tell us?
Employees who are ready to meet the challenges offered within the organization, need to know what they can do to personally prepare themselves - key to this is career planning. Once employees know the opportunities and challenges before them, they can better prepare themselves.

Where are we now?
Effective succession planning is a key factor in working and planning with employees and management to meet the needs of an organization. It is anticipated that with an effective succession management process in place, employees will be better able to determine how their career aspirations fit in with the direction of the organization and government as a whole. The Department of Finance has identified the need for succession planning and is in the process of developing initiatives within the department (in partnership with the Public Service Commission) to achieve this goal.

Where do we want to go?
The Department of Finance will make every effort to link employee's career aspirations to the needs and goals of the organization by working in partnership with the Public Service Commission.